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TAGS: [EFIN](#) [PREL](#) [ETTC](#) [PARM](#) [IR](#) [IQ](#) [FR](#) [LI](#)  
SUBJECT: FRANCE: DEPUTY SECRETARY KIMMITT DISCUSSES G8 ISSUES,  
IRAQ, IRAN, LIBERIA

Classified by Economic Counselor Stuart Dwyer for reasons 1.4  
(b) and (d)

¶1. (S) SUMMARY: Treasury Deputy Secretary Kimmitt met with Xavier Musca, DG for Economic Policy, April 27 to discuss G8 issues, Iraq, Iran and Liberia. Musca indicated concerns that European-led sanctions would lead to a vacuum to be filled in Iran by China and Russia. He promised to look into greater European Investment Bank support to the Iraq Compact. He indicated greater flexibility on Liberia in the African Development Bank would be difficult since the money would have to come from aid to former French colonies, and he considers Liberia to be more a legacy of the U.S. sphere of influence. He is not in favor of the G8 supporting direct regulation of hedge funds, and thinks the G8 should reach agreement on IMF quotas reform. END SUMMARY

#### DISCUSSION AT THE MINISTRY OF ECONOMY

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¶2. (SBU) Participants in the meeting included:

#### MFA:

Xavier Musca, Treasury Director General  
Jean-Christophe Donnelier, Under Secretary for  
International Relations, DGTPE  
Thierry Franq, Assistant Secretary for Finance, DGPTE  
Nicolas Wawresky, Deputy Director (Euamo3), DGTPE  
Stephanie Talbot, Deputy Director of International Monetary  
Systems and Summit Preparation (Multifin 4), DGTPE

#### U.S.:

The Deputy Secretary of the Treasury  
Stuart Dwyer, Economic Counselor  
TFCO Otto Van Maerssen (notetaker)

¶3. (SBU) Treasury Deputy Secretary Robert Kimmitt met in Paris April 27 with Xavier Musca, Director General of Treasury and Economic Policy at the Ministry of Economy, to discuss G8 issues, Iraq, Iran sanctions, and Liberia.

#### IRAQ

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¶4. (C) Kimmitt encouraged ministerial representation at the launch on May 3 of the International Compact for Iraq, and French support of European Investment Bank projects in Iraq. Musca noted the French elections mean that the period is not favorable for ministerial representation. He said that security concerns continue to hinder EIB projects, but promised to look at EIB involvement more closely.

#### IRAN

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¶5. (S) Kimmitt noted USG concerns about the Central Bank of

Iran's activities in terror finance and proliferation, and pressed for greater alignment of policies on export credits, focused on illicit activity.

¶6. (S) Musca said the decisions on Iran emanate from the Foreign Ministry, but noted that France had had no problem in implementing the UN Security Council resolutions. France is not the country with most at stake in Iran economically, but is involved in car manufacturing and other legitimate business. France would comply with a general ban on business, if it came to that, but Musca wants to maintain a multilateral approach. He is concerned that Russia and China might move into Iran if/when the Europeans withdraw. Expressing a personal view, Musca said he would not want to push Iran into the Russian sphere of influence, since that would just make sanctions useless. Kimmitt agreed on the need for targeted multilateral sanctions.

#### LIBERIA

¶7. (C) Kimmitt asked about the French position on Liberian arrears. Musca did not recall the details, but said his starting point was that the U.S. should bear the burden - in Francophone Africa, France paid; in Southeast Asia, the Japanese paid; the U.S. should do more for Liberia. That said, France does support an IMF solution since it can be financed without creating too many problems. Musca promised to take a closer look at the African Development Bank issue, but commented that France has been criticized internally for not using its development aid money effectively, and that the political mood is that it needs to focus on Francophone countries to take the pressure off of immigration.

#### G8 ISSUES: HEDGE FUNDS, IMF REFORM, FDI

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¶8. (SBU) Kimmitt raised the question of France's view on what to do about hedge funds in the G8 context, given that Germany keeps throwing out new ideas. Musca said he does not view the issue as one that poses stability risk, and does not think direct regulation is the answer. He would prefer to have the G8 encourage industry to develop codes of conduct, and handle investor protection in the normal regulatory framework. Finance Assistant Secretary Franq suggested the matter be turned over to IOSCO. Musca said he is open to other ideas, and inquired whether the USG was surprised by the French reaction. Kimmitt indicated he would have to give it more thought, especially the IOSCO point, but was not surprised by Musca's analysis.

¶9. (SBU) Musca raised IMF reform and quotas, saying he wanted to "sort out a solution" with the USG. He worries that the G7 is putting itself into a bind, and the USG has lost its sense of urgency. He thinks the U.S. position, looking at purchasing power parity (PPP), is to shift pressure from China to India, and is too focused on the long term benefit without asking what we will get from China in return. He urged a G7 debate to resolve the problem before the fall. Kimmitt agreed to resolve the issue internally and revisit it in Potsdam.

¶10. (SBU) Kimmitt raised the question of open investment, noting the White House plans to put out a policy statement on May 10 to try to knock back protectionist sentiment. Musca said protectionism does exist, but there is no need to overstate it. But he agreed with the Deputy Secretary's observation that state-owned companies from Russia, China and the Gulf States will present policy problems. Such acquisitions pose a sensitive problem for Europe due to Maastricht Treaty obligations, and Musca is not at all sure the French would have legal authority to oppose, for example, a GAZPROM takeover of EDF or Gaz de France.

¶12. (U) The Deputy Secretary cleared this message.

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